



Missouri Secretary of State Robin Carnahan



2006 Legislative Proposal Investors First Act

Variable annuities are part investment (usually mutual funds), part life insurance, making them the right choice for some Missourians. But, because they include long-term commitments of money that are subject to high fees, surrender penalties and varying levels of risk, they are clearly inappropriate for many investors, *especially seniors*.

As Secretary of State, protecting Missouri investors' hard-earned savings is a responsibility I take very seriously. I am committed to strengthening enforcement of Missouri securities laws and aggressively shining a light on securities firms and brokers who unfairly take advantage of Missouri investors or commit fraud. Because variable annuities are such popular, but complex products, we must close the regulatory gap to provide the necessary protection that Missouri investors need and deserve.

From 1993 to 2004, variable annuity sales increased from **\$107 million** to **\$1.7 billion** – **an increase of 1443%**.
- MDI Public Advisory Forum, June 21, 2005.

What Does This Bill Do?

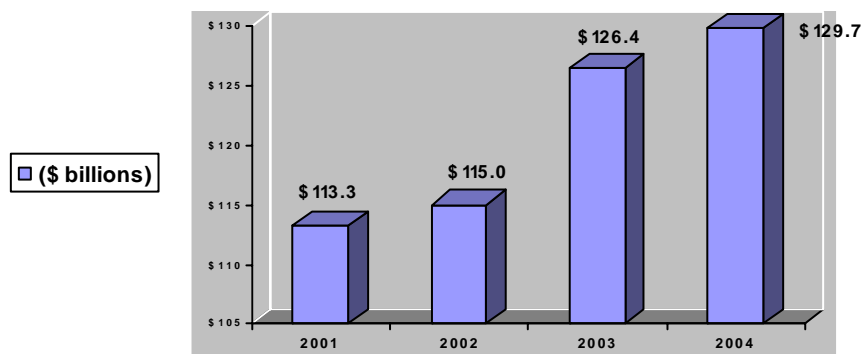
It provides better protection for Missouri investors by bringing state law into agreement with federal law to clearly define variable annuities as “securities” and close the loophole so all sellers of variable annuities must abide by the same rules.

Variable Annuity Sellers are Selling Mostly to Seniors

- The average age of a variable annuity owner is 66.
- Over one third (37%) of variable annuity contract owners are age 72 and older.
- Only 14% of variable contract owners are under age 54.

Source: National Association for Variable Annuities, 2005 Fact Book.

Variable Annuity Sales



Sales of variable annuities have steadily increased nationwide. As of 2004, net assets nationwide in variable annuities were \$1.12 trillion. The average variable annuity contract size in 2004 was \$38,419.

Source: National Association for Variable Annuities, 2005 Annuity Fact Book.



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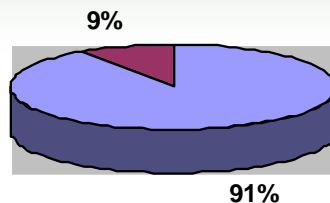
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Benefits of this Proposal

- Provides the same level of protection for investors of variable annuities as that provided to investors of other securities products
- Brings state law into agreement with federal law
- Brings stability and cohesion to the securities, banking and insurance industries by closing loopholes to ensure that all sellers of variable annuities play by the same rules
- Discourages unscrupulous securities brokers and agents from inappropriately selling variable annuities
- Allows restitution for investors and provide stiffer penalties for companies that mislead investors

"Variable annuities are generally not suitable for older investors."
~ Christine Dugas,
Confusion as a Sales Tactic,
USA Today.

Opponents of this legislation cite the undue burden of dual regulation by the Missouri Securities Division and the Department of Insurance. However 91% of those who sell variable annuities are already licensed with the Securities Division.



■ Registered with
Securities Division
■ Not Registered with
Securities Division

Due to the inappropriate and potentially illegal activities of a few securities brokers and firms, the number of cases of improper sales being investigated by the Securities Division has grown significantly.

On average in 2005, the Securities Division opened one investigation per week involving the offer or sale of a variable annuity in Missouri.

Missouri Secretary of State
www.sos.mo.gov

This proposal is not a new issue before the Missouri Legislature. In 2004, identical language was sponsored by former Speaker Catherine Hanaway, and supported by then Secretary of State Matt Blunt. That bill, HB 1665, passed the House by a vote of 132 to 25!

"Investors who are being solicited to invest in variable annuities, which fluctuate with the market, should receive the same level of investor protection afforded to other Missouri investors who purchase other securities products."

~ Secretary of State Matt Blunt in a March 17, 2004 news release